

**ALTA MUNICIPAL UTILITIES**  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
AND SCHEDULE OF FINDINGS  
DECEMBER 31, 2004

**David A. Maske**  
Certified Public Accountant  
Spencer, Iowa 51301

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## **ALTA MUNICIPAL UTILITIES**

### **OFFICIALS**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
Tom French	Trustee	June, 2005
Dennis Weber	Trustee	June, 2006
C. Alan Wadsley	Trustee	June, 2008
Kevin Walsh	Trustee	June, 2009
Jeff James	Trustee	June, 2010

# DAVID A. MASKE

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

I have audited the accompanying financial statements listed as exhibits in the table of contents of this report of Alta Municipal Utilities, a component unit of the City of Alta, Iowa, as of December 31, 2004, and for the year then ended. These financial statements are the responsibility of the Utility's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alta Municipal Utilities as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principals.

As described in Note 10, during the year ended December 31, 2004 the Utilities' adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statements No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated February 3, 2005, on my consideration of the Alta Municipal Utilities' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. Those reports are an integral part of an audit performed in accordance with General Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 4 and page 14 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. I applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

**David A. Maske**  
Certified Public Accountant

February 3, 2005  
Spencer, Iowa

# **ALTA MUNICIPAL UTILITIES**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004**

Alta Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### **2004 FINANCIAL HIGHLIGHTS**

- Operating revenue of the Utility-wide activities increased 3.6%, or approximately \$47,500 from fiscal 2003 to fiscal 2004. This was primarily from electric revenue.
- Operating expenses increased 3.9%, or approximately \$46,900 in fiscal 2004 from fiscal 2003.
- The Utilities' total net assets increased .3%, or approximately \$19,800 from December 31, 2003 to December 31, 2004. Total liabilities decreased 3% or approximately \$109,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Utilities' basic financial statements consist of balance sheets, statements of revenue, expenses and changes in municipal investment and statement of cash flows. The statements provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the Utilities' funds.

### **Basis of Accounting**

The Utilities maintains its financial records on accrual basis and the financial statements of the Utilities are prepared on that basis.

### **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better off or worse off as a result of the year's activities?" The Balance Sheet reports information which helps answer this question.

The Balance Sheet presents the Utilities' net assets. Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

### *Financial Statements*

The required financial statements include a statement of revenue, expenses and changes in investment of municipality.

## UTILITY WIDE FINANCIAL ANALYSIS

A summary of the changes in investment in municipality follows:

	YEAR ENDED DECEMBER 31,	
	2004	2003
REVENUE:		
Electric Utility.....	\$ 1,111,853	\$ 1,066,873
Water Utility.....	255,961	253,378
Interest .....	45,211	17,038
Other .....	<u>-0-</u>	<u>-0-</u>
TOTAL REVENUE	<u>\$ 1,413,025</u>	<u>\$ 1,337,289</u>
EXPENSES:		
Electric Utility.....	\$ 967,189	\$ 912,506
Water Utility.....	<u>279,527</u>	<u>287,355</u>
TOTAL EXPENSES	<u>\$ 1,246,716</u>	<u>\$ 1,199,861</u>
NET INCOME	\$ 166,309	\$ 137,428
BALANCE – BEGINNING OF YEAR	3,924,245	3,822,769
RESIDUAL EQUITY TRANSFER	<u>(37,710)</u>	<u>(35,952)</u>
BALANCE – END OF YEAR	<u>\$ 4,052,844</u>	<u>\$ 3,924,245</u>

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities did not exceed its budget.

## DEBT ADMINISTRATION

At December 31, 2004, the Utilities had \$3,280,000 in bonds and notes outstanding, compared to \$3,405,000 last year.

The Utilities redeemed \$125,000 in debt during the year.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives.

## **BASIC FINANCIAL STATEMENTS**

**ALTA MUNICIPAL UTILITIES**  
**BALANCE SHEET**  
**DECEMBER 31, 2004**

**ASSETS**

**CURRENT ASSETS:**

Cash in Bank.....	\$ 82,570
Temporary Cash Investments .....	660,000
Accounts Receivable .....	137,160
Joint Use Contract Receivable.....	402,500
Inventory .....	51,538
Prepaid Expenses .....	4,955
Accrued Interest Receivable .....	6,324
<b>TOTAL CURRENT ASSETS</b>	<b><u>\$ 1,345,047</u></b>

**FIXED ASSETS - AT COST:**

Fixed Assets in Service.....	\$ 6,484,252
LESS - Accumulated Depreciation .....	<u>(2,861,406)</u>
<b>NET FIXED ASSETS - AT COST</b>	<b><u>\$ 3,622,846</u></b>

**OTHER ASSETS:**

Non-Operating Property - At Cost .....	\$ 14,642
Plant Acquisition Costs - Net of Amortization (\$42,746) .....	19,555
Construction in Progress.....	285,487
Loan Costs - Net of Amortization (\$6,730) .....	37,422
Deferred Patronage Refund Receivable .....	8,229
Investments - 2003 Bond Issue.....	930,890
Cash in Savings - 2003 Bond Issue .....	48,841
<b>TOTAL OTHER ASSETS</b>	<b><u>\$ 1,345,066</u></b>

**RESTRICTED ASSETS:**

Revenue Bonds Required Reserves .....	\$ 898,877
Neal 4 Operations Account .....	43,832
CTS - Improvement Fund.....	161,131
<b>TOTAL RESTRICTED ASSETS</b>	<b><u>\$ 1,103,840</u></b>

**TOTAL ASSETS**

**\$ 7,416,799**

**LIABILITIES AND INVESTMENT**

**CURRENT LIABILITIES:**

Accounts Payable .....	\$ 55,977
Meter Deposits .....	33,185
Accrued Interest Payable .....	13,531
Other Accrued Liabilities .....	22,410
Current Maturities of Long-Term Debt .....	135,000
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>\$ 260,103</u></b>

**LONG-TERM DEBT - LESS CURRENT MATURITIES:**

Electric Revenue Bonds - Net of Unamortized Discount (\$41,148).....	\$ 3,238,852
LESS - Current Portion Above .....	<u>(135,000)</u>
<b>TOTAL LONG-TERM DEBT - LESS CURRENT MATURITIES</b>	<b><u>\$ 3,103,852</u></b>

**INVESTMENT OF MUNICIPALITY:**

Restricted.....	\$ 1,103,840
Unrestricted.....	2,949,004
<b>TOTAL INVESTMENT OF MUNICIPALITY</b>	<b><u>\$ 4,052,844</u></b>

**TOTAL LIABILITIES AND INVESTMENT**

**\$ 7,416,799**

See accompanying notes to financial statements



**ALTA MUNICIPAL UTILITIES**  
**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2004**

	LIGHT PLANT	WATER PLANT	TOTAL
<b>OPERATING REVENUE:</b>			
Sales to Consumers-----	\$ 990,135	\$ 252,806	\$ 1,242,941
Penalties and Service Fees-----	6,477	1,108	7,585
Joint Use Revenue-----	110,000	-0-	110,000
Miscellaneous-----	5,241	2,047	7,288
<b>TOTAL OPERATING REVENUE</b>	<b><u>\$ 1,111,853</u></b>	<b><u>\$ 255,961</u></b>	<b><u>\$ 1,367,814</u></b>
<b>OPERATING EXPENSES:</b>			
Operating Expenses:			
Purchased Power-----	\$ 425,969	\$ -0-	\$ 425,969
Depreciation and Amortization-----	41,816	60,136	101,952
Chemicals and Supplies-----	1,430	26,186	27,616
Wages and Benefits-----	4,249	17,995	22,244
Utilities-----	5,264	39,822	45,086
Fuel and Oil-----	2,735	1,808	4,543
Other Expense-----	413	2,343	2,756
<b>Total Operating Expenses</b>	<b><u>\$ 481,876</u></b>	<b><u>\$ 148,290</u></b>	<b><u>\$ 630,166</u></b>
Distribution Expenses:			
Wages and Benefits-----	\$ 13,411	\$ 18,822	\$ 32,233
Depreciation-----	4,550	5,634	10,184
Testing and Supplies-----	3,192	7,830	11,022
Other Expense-----	2,410	624	3,034
<b>Total Distribution Expenses</b>	<b><u>\$ 23,563</u></b>	<b><u>\$ 32,910</u></b>	<b><u>\$ 56,473</u></b>
Distribution Expenses – Communication Plant:			
Wages and Benefits-----	\$ 2,966	\$ -0-	\$ 2,966
Maintenance and Repairs-----	1,270	-0-	1,270
Depreciation-----	125,500	-0-	125,500
<b>Total Distribution Expenses – Communication Plant</b>	<b><u>\$ 129,736</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 129,736</u></b>
Maintenance Expenses:			
Wages and Benefits-----	\$ 31,148	\$ 13,620	\$ 44,768
Testing and Supplies-----	7,104	6,317	13,421
Depreciation-----	18,193	4,809	23,002
Other Expense-----	648	645	1,293
<b>Total Maintenance Expenses</b>	<b><u>\$ 57,093</u></b>	<b><u>\$ 25,391</u></b>	<b><u>\$ 82,484</u></b>
General and Administrative Expenses:			
Wages and Benefits-----	\$ 53,154	\$ 37,934	\$ 91,088
Office Expense and Postage-----	5,134	5,200	10,334
Depreciation-----	7,177	-0-	7,177
Insurance – Employees-----	11,750	10,743	22,493
Insurance – General-----	8,617	5,762	14,379
Professional Fees-----	3,949	5,114	9,063
Bad Debts-----	-0-	1,114	1,114
Telephone-----	1,988	1,500	3,488
Public Relations-----	720	692	1,412
Dues and Subscriptions-----	2,738	714	3,452
Meetings and Travel-----	589	122	711
Technical Support-----	908	908	1,816
Energy Conservation-----	2,386	-0-	2,386
Other Expense-----	5,066	3,133	8,199
<b>Total General and Administrative Expenses</b>	<b><u>\$ 104,176</u></b>	<b><u>\$ 72,936</u></b>	<b><u>\$ 177,112</u></b>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 796,444</u></b>	<b><u>\$ 279,527</u></b>	<b><u>\$ 1,075,971</u></b>
<b>INCOME (LOSS) FROM OPERATIONS BEFORE FIXED CHARGES</b>	<b><u>\$ 315,409</u></b>	<b><u>\$ (23,566)</u></b>	<b><u>\$ 291,843</u></b>

See accompanying notes to financial statements

**ALTA MUNICIPAL UTILITIES**  
**STATEMENT OF OPERATIONS - CONTINUED**  
**YEAR ENDED DECEMBER 31, 2004**

	LIGHT PLANT	WATER PLANT	TOTAL
FIXED CHARGES:			
Interest on Long-Term Debt-----	\$ 168,482	\$ -0-	\$ 168,482
Amortization of Bond Issue Costs -----	<u>2,263</u>	<u>-0-</u>	<u>2,263</u>
	<u>\$ 170,745</u>	<u>\$ -0-</u>	<u>\$ 170,745</u>
 INCOME (LOSS) FROM OPERATIONS	 \$ 144,664	 \$ (23,566)	 \$ 121,098
NON-OPERATING REVENUE AND EXPENSE:			
Interest Income-----	<u>45,211</u>	<u>-0-</u>	<u>45,211</u>
 NET INCOME (LOSS)	 <u>\$ 189,875</u>	 <u>\$ (23,566)</u>	 <u>\$ 166,309</u>

See accompanying notes to financial statements

**ALTA MUNICIPAL UTILITIES**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2004**

<b>CASH PROVIDED (USED) BY OPERATIONS:</b>	
Operating Income .....	\$ 121,098
Adjustments for Non-Cash Items:	
Depreciation and Amortization .....	<u>267,815</u>
	\$ 388,913
Adjustments for Working Capital Changes:	
(Increase) in Accounts Receivable .....	(11,366)
(Increase) in Joint Use Receivable .....	(110,000)
(Increase) in Inventory .....	(12,800)
Decrease in Prepaid Expenses .....	711
Increase in Accounts Payable .....	6,647
(Decrease) in Accrued Liabilities .....	(1,096)
Increase in Consumer Deposits .....	<u>8,150</u>
<b>CASH PROVIDED BY OPERATIONS</b>	<b>\$ 269,159</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
(Increase) in Temporary Cash Investments .....	\$ (145,000)
Residual Transfers .....	(37,710)
Principal Paid on Bonds .....	(125,000)
Acquisition of Fixed Assets .....	(154,512)
Increase in Construction in Progress .....	(224,000)
Decrease in '03 Bond Issue Investments .....	<u>599,723</u>
<b>CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (86,499)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest Income .....	\$ 42,492
Increase in Restricted Funds .....	(189,255)
Decrease in Other Assets .....	<u>4,742</u>
<b>CASH (USED) BY INVESTING ACTIVITIES</b>	<b>\$ (142,021)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 40,639</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>41,931</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u><u>\$ 82,570</u></u></b>

See accompanying notes to financial statements

**ALTA MUNICIPAL UTILITIES**  
STATEMENT OF INVESTMENT OF MUNICIPALITY  
YEAR ENDED DECEMBER 31, 2004

Balance – January 1, 2004 .....	\$ 3,924,245
ADD – Net Income.....	166,309
LESS – Residual Equity Transfer to City .....	<u>(37,710)</u>
 BALANCE – DECEMBER 31, 2004	 <u>\$ 4,052,844</u>

See accompanying notes to financial statements

**ALTA MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Alta Municipal Utilities is a component unit of the City of Alta. The Mayor appoints the trustees of the utility subject to approval by the City Council. The City Council also approves the Utilities operating budget.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Alta Municipal Utilities distributes electric energy and water to consumers in Alta, Iowa. The Utility purchases all of its power requirements from Western Area Power Administration and North Iowa Municipal Electric Cooperative Association under long term contracts.

Sales of water and electricity are billed at the 25<sup>th</sup> of each month for usage through the 15<sup>th</sup> of the month.

Uncollectible accounts receivable are charged to expense when it is determined that the account is not collectible.

Investments are carried at cost which approximates market value.

Inventories are valued at the lower of average cost or market.

Plant assets are carried at cost. Depreciation of utility plant is being computed by the straight-line method over the estimated useful life of the assets.

Cost of labor, materials, supervision, and other expenses incurred in making normal repairs and minor replacements, and in maintaining the properties in efficient operating condition are charged to expense. Plant accounts are charged with the costs of improvements and replacements, except minor replacements.

Legal fees and other expenses associated with the issuance of the electric revenue bonds are being amortized on the straight-line method over the term of the bonds.

Prepaid expenses are amortized using the straight-line method over the estimated useful life.

The cost of maintenance to various fixed assets is being amortized using the straight-line method over their remaining lives.

Vacation vested is recorded as a liability when earned by the employees.

For the purposes of reporting cash flows, cash and cash equivalents consist of highly liquid investments with a maturity of 3 months or less when purchased.

The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

**NOTE 2 - CASH AND POOLED INVESTMENTS**

The Utilities' deposits in banks at December 31, 2004 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts; and warrants or improvement certificates of a drainage district.

**ALTA MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2004**

**NOTE 2 - CASH AND POOLED INVESTMENTS - CONTINUED**

The Utilities investments are categorized to give an indication of the level of risk assumed by the Utilities at year end. The investments are all Category 1, which means the investments are insured or registered or the securities are held by the Utilities or it's agent in the Utilities' name.

The Utilities' investments at December 31, 2004 are as follows:

Type	Carrying Amount	Fair Value
Federal National Mortgage Association.....	\$ 236,677	\$ 236,677
Federal Home Loan Bank.....	<u>694,213</u>	<u>694,213</u>
Total	<u>\$ 930,890</u>	<u>\$ 930,890</u>

**Temporary Cash Investments**

These funds were deposited as follows as of December 31, 2004:

Certificates of Deposit .....	<u>\$ 660,000</u>
-------------------------------	-------------------

The certificates of deposit at December 31, 2004 bear interest at 2.35% to 2.65% and mature from November, 2005 to January, 2006.

Due to the short term maturities of these investments cost approximates fair value.

**Cash and Cash Equivalents**

These funds were deposited as follows as of December 31, 2004

Demand Deposits .....	\$ (547,430)
Short-Term Certificates of Deposit .....	<u>630,000</u>
	<u>\$ 82,570</u>

**NOTE 3 – ELECTRIC REVENUE BONDS**

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending December 31,	2003 Revenue Notes		2000 Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 65,000	\$ 59,913	\$ 70,000	\$ 102,465	\$ 135,000	\$ 162,378
2006	70,000	58,742	70,000	98,545	140,000	157,287
2007	70,000	57,168	75,000	94,625	145,000	151,793
2008	70,000	55,347	80,000	90,425	150,000	145,772
2009	75,000	53,318	85,000	85,945	160,000	139,263
2010	75,000	50,955	90,000	81,100	165,000	132,055
2011	80,000	48,442	95,000	75,925	175,000	124,367
2012	85,000	45,603	100,000	70,415	185,000	116,018
2013	90,000	42,457	105,000	64,565	195,000	107,022
2014	90,000	38,993	115,000	58,370	205,000	97,363
2015	95,000	35,393	120,000	51,528	215,000	86,921
2016	100,000	31,450	125,000	44,327	225,000	75,777
2017	105,000	27,150	135,000	36,765	240,000	63,915
2018	110,000	22,530	145,000	28,530	255,000	51,060
2019	115,000	17,580	150,000	19,613	265,000	37,193
2020	120,000	12,290	165,000	10,312	285,000	22,602
2021	140,000	6,650	-0-	-0-	140,000	6,650
	<u>\$ 1,555,000</u>	<u>\$ 663,981</u>	<u>\$ 1,725,000</u>	<u>\$ 1,013,455</u>	<u>\$ 3,280,000</u>	<u>\$ 1,677,436</u>

**ALTA MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2004**

**NOTE 3 – ELECTRIC REVENUE BONDS – CONTINUED**

The resolutions providing for the issuance of revenue bonds include the following provisions:

- A. The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to electric revenue sinking account for the purpose of making the note principal and interest payments when due.
- C. The Utilities is to establish a separate Bond Reserve Account into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$250,000, for the 2000 bonds. Monthly deposits of 25% of the sinking fund, to a maximum of \$146,650, shall be set aside for the 2003 issue.
- D. Additional monthly transfers of \$2,000 to the Bond Improvement Fund shall be made until the sum of \$100,000 has been accumulated, for each issue. This account is restricted for the purpose of paying for necessary repairs, improvements and extension to the system.

A summary of the changes in long-term debt for the year ended December 31, 2004 is as follows:

Description	Original Amount	Interest Rates	Due Dates	Balance 01/01/04	Issued	Retired	Balance 12/31/04
2000 Electric Revenue Notes	\$ 1,965,000	5.60-6.25%	2004-2020	\$ 1,790,000	\$ -0-	\$ 65,000	\$ 1,725,000
2003 Electric Revenue Notes	1,615,000	1.40-4.75%	2004-2021	<u>1,615,000</u>	<u>-0-</u>	<u>60,000</u>	<u>1,555,000</u>
Total				<u>\$ 3,405,000</u>	<u>\$ -0-</u>	<u>\$ 125,000</u>	<u>\$ 3,280,000</u>

**NOTE 4 - PENSION AND RETIREMENT BENEFITS**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the year ended December 21, 2004 was \$9,645, equal to the required contribution for the year.

**NOTE 5 - COMMON TRANSMISSION SYSTEM - CAPITAL IMPROVEMENT FUND**

This account is currently used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission system.

**NOTE 6 - SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK**

The Utilities extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utilities' customers are located in Alta, Iowa. The Utilities' credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

**ALTA MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2004**

**NOTE 7 - RISK MANAGEMENT**

Alta Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

**NOTE 8 - FIXED ASSETS**

A summary of changes in fixed assets is as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Fixed Assets – Electric .....	\$ 4,574,902	\$ 38,535	\$ -0-	4,613,437
Fixed Assets – Water .....	\$ 1,754,838	\$ 115,977	\$ -0-	\$ 1,870,815

**NOTE 9 - RELATED PARTY TRANSACTION**

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Alta Municipal Utilities and the Alta Municipal Broadband Communications Utility have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$110,000 on or before the first day of May each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is 40 years and the first payment became due May 1, 2002. The statement of operations reflects an income for the year of \$110,000; the balance sheet at December 31, 2004 includes a total receivable of \$402,500.

**NOTE 10 –ACCOUNTING CHANGE:**

Governmental Accounting Standards Boards Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences were implemented for the year ended December 31, 2004. The statements create new basic financial statements for reporting the Utility's financial activities.



## **REQUIRED SUPPLEMENTAL INFORMATION**

**ALTA MUNICIPAL UTILITIES**  
**BUDGETARY COMPARISON OF REVENUE, EXPENSES AND**  
**CHANGES IN MUNICIPAL INVESTMENT**  
**YEAR ENDED DECEMBER 31, 2004**

	ACTUAL	BUDGET	VARIANCE FAVORABLE UNFAVORABLE
REVENUE:			
Use of Money and Property -----	\$ 45,211	\$ 40,000	\$ 5,211
Services -----	1,360,526	1,322,239	38,287
Other -----	7,288	2,500	4,788
TOTAL REVENUE	<u>\$ 1,413,025</u>	<u>\$ 1,364,739</u>	<u>\$ 48,286</u>
 EXPENSES .....	 <u>1,246,716</u>	 <u>1,849,027</u>	 <u>602,311</u>
 NET INCOME	 \$ 166,309	 \$ (484,288)	 \$ 650,597
INVESTMENT OF MUNICIPALITY – JANUARY 1	3,924,245	3,924,245	-0-
RESIDUAL TRANSFERS	<u>(37,710)</u>	<u>(40,280)</u>	<u>2,570</u>
 INVESTMENT OF MUNICIPALITY – DECEMBER 31	 <u>\$ 4,052,844</u>	 <u>\$ 3,399,677</u>	 <u>\$ 653,167</u>

See accompanying independent auditor's report

**ALTA MUNICIPAL UTILITIES**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**DECEMBER 31, 2004**

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

# DAVID A. MASKE

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

I have audited the financial statements of Alta Municipal Utilities, as of and for the year ended December 31, 2004 and have issued my report thereon dated February 3, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Alta Municipal Utilities' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However I noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Alta Municipal Utilities' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Alta Municipal Utilities' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions describe above, I believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved, except for 04-I-A and 04-I-B.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Alta, Iowa and other parties to whom Alta Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Utility during the course of my audit.

Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

February 3, 2005  
Spencer, Iowa

**David A. Maske**  
Certified Public Accountant

**ALTA MUNICIPAL UTILITIES**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED DECEMBER 31, 2004**

**PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS:**

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

04-I-A      **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

**Recommendation** - I realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

**Response** - Alta Utilities plans to cross train office help as time and workload allows. This should help to eliminate the handling of incompatible duties by an individual employee.

**Conclusion** - Response accepted.

04-I-B      **Electronic Data Processing Systems** - During my review of internal control, the existing control activities in the Utilities' computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utilities' computer based systems were noted:

The Utilities does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- requiring user profiles to help limit access to those who have a legitimate need.

Also, the Utilities does not have a written disaster recovery plan.

**Recommendation** - The Utilities should develop written policies addressing the above items in order to improve the Utilities' control over computer based systems and a written disaster recovery plan should be developed.

**Response** - The Utilities will investigate the existence of model policies that can be tailored to fit the need of our utilities. If no policies exist, the Utilities will develop written policies as time allows.

**Conclusion** - Response accepted.

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - CONTINUED  
YEAR ENDED DECEMBER 31, 2004

**PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:**

- 04-II-A     **Official Depositories** - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.
- 04-II-B     **Certified Budget** - The Utilities' expenditures during the year ended December 31, 2004 did not exceed the amount budgeted.
- 04-II-C     **Questionable Expenditures** - I noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 04-II-D     **Travel Expense** - No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- 04-II-E     **Business Transactions** - I noted no transactions between the Utilities' and Utilities' officials during the year.
- 04-II-F     **Bond Coverage** - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-II-G     **Trustee Minutes** - No transactions were found that I believe should have been approved in the Trustee minutes but were not.
- 04-II-H     **Deposits and Investments** - I noted no instances of non-compliance with the deposits and investment provision of Chapter 12B and 12C of the Code of Iowa.
- 04-II-I     **Revenue Notes** - The Utilities has complied with the revenue note resolutions.